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Political Risks and Political Stability in Ukraine

UCIPR Document on
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RESUME

The UCIPR confirms its political risk assessment of 6-7 points made by the ten-point scale in November 2008.

The structure of political risks, characterized by insufficient guarantees of property rights, non-transparent decision-making methods, corrupt relations and political instability, is retained.

A major factor of political instability at the modern stage is the process of regrouping interests of groups of influence caused by the forthcoming presidential elections and freezing of structural reforms. The state of decision-making within the system of power can be characterized as “stability in underdevelopment”.

There is a high possibility of transformation of a political regime in Ukraine. Political instability results from relations, under which a political system, a system of power, its acquisition and spread become the object of politics. Instability of the parliamentary coalition and a shift of decision-making centers from parliamentary to extra-parliamentary structures create conditions for the destabilization of Ukraine's parliamentary business and low-predictable actions of possible political alliances. Political instability is linked to the practical revision of rules of the law in force actually meaning a denial to develop government policy documents that entrench fundamentals of the system of government and basic principles of national security.

The protection of property rights still depends on a political situation. The upcoming presidential elections create preconditions for the redistribution of acquired property.

Privatization will be non-transparent in the medium-term period because of the dominance of interests of influential economic agents in the political process that fight for control of resources and simultaneously strive to protect their interests and property from actions of competing groups.

High risks attend the land property right. The moratorium on the sale of agricultural lands will not be abolished in the near future. This will entail the instable position of land owners and their continued dependence upon political fluctuations.

The large capital learnt to conduct a dialogue with power, whereas the administrative and tax pressure on the medium and small business will increase (especially given the curtailment of business operations).

No radical changes are expected in the taxation system. The number of taxes will be high and their administration will be time-consuming.

Influences of groups of political interests outside Ukraine will retain and enhanced. Meanwhile, there is a possibility of the artificial escalation of inter-ethnic tensions, which will mean the spread of political instability on social relations.

A short- and medium-term forecast of political stability is unfavorable. An intrigue of the political process in the context of the presidential elections is not whether political stability will come and whether political risks will reduce but how interests of economic agents in politics will be regrouped.

Politics: Consensus and Polarization of Political Elites

A major factor of political instability at the modern stage is the process of regrouping interests of groups of influence caused by the forthcoming presidential elections.

In the context of the expected great privatization, political elites act as purely economic agents fighting for control of resources. Interests are regrouped around either candidates viewed by groups of influence as objects of their support or opportunities to ensure economic interests of these groups at the stage before the presidential elections. The presidential elections and their date are important just as a point of measuring economic strategies of persons concerned.

Multidirectional political processes are going on now. Political ties are instable and their rapid change under the difference between government documents and practical strategies of actors entail instability of the system of decisions making and low predictability of their content. Notwithstanding rather polarized politics, specific political alliances of powerful groups of influence are set up, which are used to attain status (power) goals.

Erosion of the specific political competence area evidences actual interests of representatives of political forces that, despite leftist electoral tactics, are uniting in strategies for the coming and retention of power and the subordination of political decisions to interests of homogenous economic groups. Such solidarity is a form of consensus of political elites. Though, every time this will be a one-time consensus. Its subject is a scope of power interests of dominant groups. The high level of conflict political strategies and tactics is retained at a variety of levels of government institutions.

The nature of the dominance of interests of capital in the decision-making system determines the further strengthening of relations, under which access to property and government institutions is viewed as a tool of profit earning. This circumstance evokes the absence of interest of dominant groups in reforming government institutions and in reforms that can change their status in the system of decision-making and, consequently, affect a profit earning model. Specifically, this concerns reforms linked to the organization of the system of government, its legitimization and administration procedure. According to experts on politics, some, including the administrative (administrative and territorial) (62.5%), local self-government (58%), system of government (54%), constitutional (75%) and social policy (55%) reforms, were not carried out because of the absence of unanimity of elite groups on their content; some others, including the judicial and legal (66.6%), electoral (62.5%), public finance administration (75%), deshadowing of the economy (54%), anti-corruption policy (62.5%) and agrarian reform together with the legally protected land market (45.8%) were not implemented because of unwillingness of elite groups since reform results will be contrary to the current status of these groups (see Appendix "Modeling the Future. From "New Faces in Politics" to "A New Face of Politics").

Balances in a Political System. A Possible Transformation of a Political Regime

There is a high possibility of transformation of a political regime in Ukraine as a result of the half-hearted political reform suggested while voting changes to the Constitution on 8 December, 2004. Constitutional changes in the organization of the system of government were unsystematic, while the issue of their illegitimacy due to the violation of procedures for amending the Constitution was removed by the fact of its incontestability in the Constitutional Court over 2005 because of its unformed composition and the entry of the issue into force in 2006.

Nevertheless, despite the polycentric political system, there are risks of the redistribution of power in the interests of dominant groups. Irregular and incomplete changes occasionally tried by political conflicts inside power actualize issues of further reforms in the system of government through amending the current Constitution or even adopting a new one.

The uniform constitutional process is not ensured. Different political forces suggest their own visions of the system of government. There is a possibility that parliament will be presented with draft constitutional changes expressing common interest of the constitutional majority of the Verkhovna Rada. At the same time, non-submission of such the bill by the end of the current session will mean the conservation of the constitutional process and its postponement for the period after the presidential elections.

A rather high unpredictability of a political regime transformation at the current stage is caused by instability of the parliamentary coalition. Under the Constitution, the coalition shall be the one of a parliamentary majority but it does not suit this requirement in numerical terms as it is composed following a decision of a majority in factions (which is confirmed by the judgment of the Constitutional Court of 17 September, 2008). As a result of the above, the coalition sometimes cannot play its role enshrined in the Constitution, law on the Cabinet of Ministers, Verkhovna Rada Regulations and coalition agreement. Specifically, the coalition cannot cope with personnel issues, which remain on the political agenda for long. In particular, two offices are vacant in the government over three months, the Minister of Finance that emerged after the resignation of Victor Pynzenyk on 17 February 2009 and the Foreign Minister that emerged after the resignation of Volodymyr Ogryzko on March 3, 2009. Public processes of nominating candidates for these offices and a discussion of their business qualifications and political platforms are absent, which creates additional risks for the decision-making system given the need to promote foreign political initiatives.

Meanwhile, it is the coalition that is vested with exclusive powers to form the government through submitting proposals to the President of Ukraine on its candidate for the Prime Minister and candidates for Cabinet ministers in compliance with both the Constitution of Ukraine and the judgment of the Constitutional Court of 28 April, 2009.

Procedural mechanisms for decision coordination in parliament, such as the Coalition Council and the Parliamentary Coordinating Council, do not work properly.

The coalition's instability provokes uncertainties in politics and legislation. The PM faction not always votes for government bills. Specifically, on March 20, 2009, the bill

“On the Fair Conduct of Persons Responsible to Perform Government and Local Self-Government Functions” was rejected because only two members of the BYuT faction voted for it.

To conduct its position in parliament, the government has to seek understanding outside the coalition, which entails either one-time agreements or long-term pacts. Such short- and long-term deals are concluded outside documents regulating activities of the parliamentary coalition and are based on meeting interests and needs of members of backroom alliances.

Regulation procedures in parliament need to be legally revised according to the judgment of the Constitutional Court of 1 April, 2008 since parliament has to settle organizational and procedural issue pertaining to activities of the Verkhovna Rada (and the status of MPs) exclusively by force of law. As of now, the status of regulations of the Verkhovna Rada of 19 September, 2008, which sets procedures for the preparation and holding of parliamentary sessions and meetings, formation of national authorities, the legislative procedure, procedures for consideration of other issues within the scope of its competence and controlling procedures for the Verkhovna Rada, is uncertain.

Instability of the parliamentary coalition and a shift of decision-making centers from parliamentary to extra-parliamentary structures create conditions for the destabilization of Ukraine’s parliamentary business and low-predictable actions of possible political alliances.

Specific features of political instability relations are linked to the practical revision of rules of the system of government actually meaning a denial to develop government policy documents that entrench other (actual) fundamentals of the system of government and basic principles of national security. Under the current procedure, government documents differ from the actual content of politics.

Compliance with Established Decision-Making Procedures in the Government and the Parliamentary Coalition. Transparent (Non-Transparent) Decision-Making

Political stability is based on consistent decision-making as a guarantee of predictability of power decisions.

Government and parliamentary decisions are not always predictable as they do not always comply with established procedures. The government can make decisions “by vote”, whereas the Cabinet Regulations and the law on the Cabinet provide for preliminary discussion of draft decisions in government committees.

The practice of using the stamp “for employees only” by the Cabinet is unjustified and is not provided for by the law in force. In 2008, the Cabinet of Ministers repeatedly practiced this and, by doing so, endorsed 33 acts, inclusive of 17 resolutions and 16 orders. Over less than 6 months of 2009, the government has passed 8 closed resolutions and 4 orders, which runs counter to its legislative commitments undertaken in the area of information circulation. Closed decisions of authorities and their leadership happen to provide for dubious, from the legal viewpoint, remuneration for them. In this regard, of special note is information on the content of the closed order of the Speaker of the Verkhovna Rada adopted on June 7, 2006. The press informed (the order is absent in the electronic database of parliamentary decisions) it reads that after the termination of their powers, all Speakers of the Verkhovna Rada shall be provided with their personal offices in administrative buildings of parliament and service cars “for regular work” as well as the right to have a counselor and an aide. The practice of personal property guarantees for high officials confirms wide interest in getting offices within the system of power.

Low predictability of power decisions is also determined by the strong dependence of an administrative element from political one. This risk might be eliminated by the administrative reform, which would divide the public service system and political processes on new principles. Yet, this reform is not expected in the medium-term period. Throughout the whole cadence of parliament of the 6th convocation (since 2007) and the government, neither a draft concept of the public administration reform nor bills on reforming activity of ministries and national authorities have been approved so that to enhance the quality of power decisions.

The scope of power and its concentration on the national level remain high. For the time being, the matter does not concern power decentralization and deconcentration in the interests of strengthening local self-government and offering citizens opportunities to get services from authorities close to them and capable of this.

External Factors Influencing the Political Process in Ukraine

Among other things, the high level of political instability in Ukraine is determined by influences and the alignment of forces on the international scene.

Influential political actors have different views on Ukraine's role in the security system caused by the degree of readiness to get the political support from different centers of influence.

There are the European integration orientation, European Neighborhood Policy proposal, EU Eastern Partnership project and steps geared toward making Ukraine closer to the EU and adopting EU models of behavior of economic agents, in particular, the signing, by the end of 2009, of the free trade zone agreement between the EU and Ukraine, on the one hand and there are the foreign political interest of the Russian Federation mirrored in the Russian National Security Strategy until 2020 of May 12, 2009, legitimization of the doctrine to protect its citizens by any means and influences of bearers and representatives of interests of the Russian state on Ukrainian politics on the other.

The latter circumstance is manifested in the increase of proposals of political actors aimed at the actual revision of previous agreements on national security (e.g. positions of a new role of the RF Black Sea Fleet in the protection of Ukraine's frontiers), which creates an atmosphere of unpredictable positions of the Ukrainian state on some issues of the collective security architecture and a lack of understanding of the weight of mandates of subjects, who voice proposals on behalf of the state.

Russia retains positions to include the former USSR countries into the area of its influence and intends to enhance this influence if some active political actors are ready to realize it in Ukraine.

An EU closer integration policy towards Ukraine is hampered by not only EU internal circumstances, as it may seem, but also insufficient concentration of the Ukrainian state on the commitment to carry out internal system reforms and the compliance with international agreements.

The Property Right and Guarantees of Its Protection

The strong dependence of property right guarantees on a political situation poses a major source of property risks. The private property is formally recognized. Though, the practice proves there are risks linked to the seizure of property and not only following legal procedures provided for by the Constitution of Ukraine.

A) Regulatory Policy

In this aspect, of special note is the bill “On the Prohibition of Gambling” passed by parliament on May 15, 2009 that reads, “Gambling and gaming is completely prohibited in Ukraine.” Nine people killed in a fire in a gambling hall in Dnipropetrovsk drew public attention to the issue. Under the document, it enters into force 3 days after its publication. “From the date of its enactment onwards, licensing of all activities related to gambling in Ukraine shall be cancelled and licenses issued to economic entities before the date of enactment of this law shall be annulled.”

On May 14, the bill was included into the agenda of the Verkhovna Rada and on May 15, it was approved following the simplified procedure bypassing preliminary public discussion mechanisms. Earlier on, on May 7, the Cabinet issued the order to suspend licenses of all gambling institutions for one month.

The prohibition of one of industries unexpected for business subjects does not remove the need for its government control. Rules of the law are not administrative in nature alone, its adoption drastically changes terms and conditions for the conduct of business in this area. This decision does not aim to eliminate the negative social effect (in particular, the gambling addiction) from a lack of regulation of the gambling industry because it creates preconditions for its shadowing with all ensuing consequences and does not provide for mechanisms for the reparation of damages.

Meanwhile, the bill “On the Government Regulation of Gambling” that suggests approaches to the regulation of gambling was approved as a basis in parliament on 26 December, 2008.

The postponement of making draft decisions and the disregard of terms of their consideration create grounds for the approval of populist decisions, which fail either to solve problems or to link government policy to the regulation of social phenomena at the phase of their emergence but give rise to a drastic change of conditions for business operations.

Today, the Ukrainian state is able to guarantee owners neither the retention of property rights nor their judicial protection nor recovery of investment. Loyalty of property owners to the country’s political leadership or their direct involvement in decision-making groups at a variety of levels are the only guarantees.

B) Land Issue

The land is almost the only property, a considerable part of which still lies outside the legal market. The moratorium on the sale of agricultural lands results in the fact that despite the official recognition of the private property in land by the government, it still remains a commodity circulated by shadow schemes.

Analysis of the structure of risks linked to the property in land evidences they are mostly concentrated in the legislation impacted by the largest land owners disinterested in the land market regulation. The moratorium on the sale of agricultural lands poses a main obstacle on the path to a civilized land market. Its constant prolongation only proves the absence of an intention to legally ensure the functioning of the land market.

The Land Code of Ukraine (LCU), by which the Verkhovna Rada constantly prolongs the moratorium on the sale of agricultural lands, provides that this moratorium shall be removed under the entry into force of the laws on the state land cadastre and on the land market. The government works in this direction but the LCU in force gives grounds for “manual” control of the situation on abolishing the moratorium, which under the given circumstance may be viewed as a means of extension of the status quo.

Groups disinterested to shift to a legal land market dominate in parliament. A new President of Ukraine (even a liberal politician) will have to reckon with such the alignment of forces (the same stands true about other issues of the regulation of different business spheres). Most likely, the land issue will remain a “small coin” in bargaining of political forces and a means of mobilizing voters for the upcoming presidential and parliamentary campaigns. Even given the passage of necessary laws, the moratorium on the sale of agricultural lands will not be removed in the near future. It means investment in land (in both small land plots for the individual use and large areas for the construction and others) is very risky.

Manipulations with lands gave rise to the spread of corruption. A rather narrow circle of persons concerned (including representatives of nearly all political forces), who have great advantages from their beneficial positions (including privileges and subsidies, which agrarian lobbyists annually “wrest” from the budget) got access to land resources. These groups are naturally not interested in either the increase of their number or the reduction of budget receipts. The availability of the above circle of land owners integrated into the political class and administrative elite impedes investment in land.

Certain social risks stimulated by the market are linked to the transformation of land into a full-fledged commodity. The financial and investment capital (banking institutions, trade and real estate actors) interested to make the land a full-fledged commodity supports the removal of the moratorium. This would enable them not only to make advantageous investment but also to control the land business. Though, there is a danger that banking institutions will take possession of all large land plots if the mortgage land becomes the property of the mortgagee. Also there is a risk that financial profiteers will purchase lands and resell them for big money, which will affect the cost of agrarian produce and cause inflation. In the long run, there are apprehensions that “all lands will be purchased by oligarchs and foreigners”, whereas the peasants will lose their plots.

Such apprehensions once again confirm land risks closely relate to the legislative business of parliament. The accurate and painstaking work of law-makers, who must provide for all possible consequences of the land market's creation, shall precede the removal of the moratorium. Specifically, to restrict the purchase of land by banks, it is expedient to oblige them to sell lands of mortgagers acquired as a result of outstanding payments or mortgage tenders within a certain period.

To avoid speculations on the land market, many economies that profit from the rapid market circulation of lands apply the principle of higher taxation for the short-term ownership and, conversely, practice low-interest income taxes for the long-term ownership. As for non-residents, it is expedient to discuss mechanisms for control of the use of lands. As far as the loss of lands by the peasants is concerned, only a profit-making agrarian business could help them to effectively exercise their right in land instead of trying to sell it even for nothing.

With regard to risks attending the land issue, it is predicated to remain unsettled in the near future. And the moratorium's removal alone will solve nothing. The land market creates conditions that stimulate the effective use of land and make some entities deny a part of land, if it does not function properly. Yet, the very land market is not a guarantor of economic stability. The government is obliged to create conditions for the protection of land property rights, compliance of entities with their contractual obligations, the purpose and reasonable use of the country's land supply. And government policy must be built on combination of interests of economic entities of the agricultural sector.

The adoption of laws, which will deprive investors of lands or put them in such conditions that they will be made deny land plots, cannot be ruled out. Given parliamentary inaction, investors are forced to resolve their problems with local authorities by means of corruption and through "grey" schemes. The peasants are actually losing lands. The situation is advantageous only for a relatively small group of land owners capable of lobbying their interests at the highest level.

C) Property Privatization

Methods of privatization (in the broad sense of the term) enabled the Soviet nomenclature to reproduce itself on a new basis. Due to non-transparent privatization, property relations in Ukraine are distorted to a large extent and are still regulated rather by informal backroom accords and the selective application of the law in force than by market mechanisms and rules of the law.

The largest privatization risks are evoked rather by the arbitrary rule of applying the property legislation than by its deficiencies. The selective approach to privatization and nationalization of some political forces is evident. There are expectations to acquire property due to its redistribution. This is evidenced by events around the Nikopol Ferroalloy Factory and the tender on selling the Luhanskteplovoz. In the first instance, the government made pressure on a factory owner intending to transfer ownership of the NFF to others. In the second case, the State Property Fund (SPF) set tender conditions so that they proved to be favorable for one of claimants.

Despite that Article 41 of the Ukrainian Constitution reads, “No one shall be unlawfully deprived of the right of property. The right of private property is inviolable... Confiscation of property may be applied only pursuant to a court decision, in the cases, in the extent and by the procedure established by law”, the SPF drafted the bill “On Amending Some Legislative Acts on Privatization Issues” (concerning the responsibility of buyers of privatization objects). Under the bill, Paragraph 9, Article 27 of the law on privatization of state-owned property shall be amended as follows, “In case of non-execution or improper execution of terms set by the purchase and sale contract, national privatization bodies have the right to denunciate it unilaterally. If so, the contract is denounced since the moment the national privatization body notifies the buyer about the contract denunciation and the privatization object, including the land plot, shall be returned to state-owned property according to terms and procedures established by the purchase and sale contract.” The formulation “in case of non-execution or improper execution of terms by the buyer” is too vague and gives the SPF the right to independently and rather arbitrarily decide as to whether the investor violated the contract terms. The deletion from Paragraph 9, Article 27 of the rule reading that the contract shall be denounced following a court decision also runs counter to Paragraph 5, Article 27 (“the purchase and sale contract shall be denounced following a court decision”) and Article 651 of the Civil Code of Ukraine (“the contract may be amended or cancelled either by parties agreement or following a court decision”).

The adoption of the bill proposed by the SPF will apparently allow controlling re-privatization “manually”, which will cast doubt on the property right in any privatized object.

Interests of large financial and industrial groups are integrated in the system of power reproduced from elections to elections and, hence, these groups remain dominant in the decision-making system. At the same time, they get more advantages from the creation of conditions for their business in a backroom manner.

Privatization of the state-owned property should be a cornerstone of socio-economic reforms in Ukraine. Yet, privatization is often viewed in the context of purely fiscal measures, while the inconsistency and non-transparency of privatization processes

(especially, the transfer of property) create preconditions for political confrontation, which deteriorates the socio-economic situation in the country.

Privatization in Ukraine needs a government strategy for reforming property relations, consideration of inter-branch ties in the economy, institutional mechanisms for the market regulation, transparent decision-making on privatization of strategic enterprises and business monopolies. This would essentially enhance investment attractiveness of the national economy.

However, privatization processes will be non-transparent in the medium-term period. The sale of a certain strategic unit will be motivated mostly by the need to increase the budget. There will be permanent deficit of receipts from privatization of the state-owned property with regard to the very unfavorable investment situation in the world. Hence, temptations to launch the resale of a certain object through re-privatization could be expected.

There are expectations that the re-privatization issue may emerge at the presidential elections as at this time, attention of key political actors will traditionally be focused on the possible property redistribution and means to protect their personal interests against a new (renewed) team. Given the business slowdown, the revision of privatization results may be a basic motto of populist politicians' campaigns.

The participation of large world actors in privatization is possible though it has to consider specific features of decision-making and administration in Ukraine.

Conditions for the Conduct of Business

The large capital integrated to the government political and administrative elites can feel relatively at ease. The medium and small business is a hostage of politics and socio-economic populism. The tax system reform aimed to be transparent, clear and equal rules of the game slowed down once and for all.

A) Large Capital

The large capital in Ukraine historically has to look for a consensus not with the employee and the public but with the government represented by the bureaucracy machinery and politicians. The search of such consensus is especially apparent while compiling election lists and making preparations for the presidential elections. Under the Ukrainian scheme of power-business relations, it is obviously more advantageous for the large capital to invest in the government, which using its monopolistic right, sets the amount of salaries inadequate to the employee's contributions and tariffs on services that are not practically rendered.

In its turn, the government intends to support relations with the large business by corruption means. Export-oriented enterprises are granted preferences in exchange for political loyalty of the large capital to the government.

Legislative, business and socio-economic risks are closely intertwined in the practice of conduct of the large capital. This knot will actually be impossible to undo in the short-term period. The dominance of representatives of the large capital in lead political forces in parliament makes MPs lobby mostly interests of this business level. Threatened by the curtailment of economic activity by owners of the largest businesses and the reduction of budget receipts, the government and parliament are forced to make various compromises (the grant of privileges, signing of memoranda etc.), which not only fail to create the necessary prerequisites for structural reforms but also impede this process.

Over recently, the large capital has built relations with main political actors, trying to protect itself from consequences of political reshuffles. And, to some extent, it succeeded. Though, stability that should result from agreements of businessmen and politicians provides rather for the maintenance of the status-quo than for the development according to EU standards.

The large business suffers serious losses because of the unfavorable situation on world raw materials markets. Despite a several-year growth, directors and owners of metallurgical, chemical and other export-oriented businesses have never managed to technically update them. So, the drop in demand for the Ukrainian exports seriously hit pockets of enterprise owners and even more it hit the wellbeing of employees and cast doubt on opportunities of the large capital to perform its social role. Needless to say, social and environmental programs were the first victims of the decrease in investment.

In view of party platforms and principles of activity, it is possible to assume that attention of key political forces and presidential candidates will be further focused on problems of the large capital. This will mean the support to large businesses, lobbying of various privileges and special terms for their development.

B) Medium and Small Business

There are preconditions for the curtailment of activities of medium and small businesses oriented to meet the simplest and, thereby, mass needs of Ukrainians. The internal consumer market will curtail as well. Given the situation, efforts of the government to improve its programs for promoting the small and medium business seem to be nothing but a delay of a real solution of the problem. As is known, free competition within clear market rules is the most important condition for the business development.

The main goal today is to create necessary conditions for independent economic activity of everyone. In this aspect, the government support cannot boil down to different sporadic and irregular actions for the so-called entrepreneurship support. The government must set simple and clear for all rules of the game, which would make people, who venture to carry out private business, sure of its stability and security. Conversely, we witness a mixture of populist measures and PR-actions targeted to mobilize voters in support of some political forces.

The issue of the exercise of the entrepreneurship right closely relates to the reduction of tax burden on the small and medium business. However, this pressure was not eased but even grew stronger after a one-and-a-half-year alleviation. The acting Cabinet was in the situation of a substantial decrease of budget receipts due to the crisis and therefore decided this business segment will be a major source of earnings.

Entrepreneurs are under the double pressure: on the part of national and local authorities. They cannot freely plan business operations, they do not know when and how much and, the main thing, what for they have to pay the state or some officials. All the time they risk losing their business and, thus, are forced to live one day. The practice of the acting government proves pressure on the small entrepreneur will increase (especially given the curtailed business), which will trigger negative social consequences.

C) Tax System

The tax policy is a main component of a country's socio-economic development. Efforts to reform Ukraine's tax system are permanent but tangible changes are made just in some directions. Taxes have not become an economic stimulation tool. The matter rather concerns the need to minimize negative impact of the tax system on activity of economic entities, which may serve, to some extent, as an incentive to the growth of entrepreneurship. Yet, such approach does not suit populist statements about higher social security payments.

One of the major challenges of Ukraine's tax system are tax privileges that not always meet innovation and investment goals, for which they were applied, but turned into a sinecure for close to power businesses. Another problem is the large number of taxes and related expenses for their administration. This also promotes corruption.

The discussion around ways for the further improvement of the tax system of Ukraine is targeted to determine its structural principles and the ultimate goal of the work on improving taxation is the adoption of the Tax Code. As a matter of fact, all propagandistic endeavors of politicians are focused on the need to approve a new Tax

Code. Nevertheless, the Code is not a self-sufficient document but rather a core of the tax system and, therefore, has to crown the legislative drafting.

Over these years of debates on ways for reforming the tax system, the economic elite and businessmen developed an understanding of deficiency of the law “On the Enterprise Income Tax”, the criminal nature of the valid VAT, excessive and too complicated administration of pension charges on the wage fund, a need for the single social tax and the pension reform, a need for taxes on wealth (real estate, property etc.), the vicious nature of privileges and preferences. The content of recent decisions does not live up expectations of an easier tax burden and simplified taxation.

The complexity of Ukraine’s tax system is still a high barrier on the path to the business development in the country. Notwithstanding less time for tax payment due to the introduction of the electronic system of tax accounts, Ukrainian enterprises have to spend for this over 800 hours per annum. Ukrainian companies have to pay almost 100 different taxes. The tax law, which is out of the political agenda for almost two years, needs to be reformed.

A possibility of the tax reform in the medium-term period is minor as political forces that might take part in the formation of a governmental coalition have different approaches to ways for changing the tax law. Taking into account the upcoming presidential elections, the tax system reform remains a subject of discussion and speculations on the part of political forces that back up their candidates.

Standards of Politics and Genesis of Political Elites

In the context of potential retention of sources of risks in the medium-term period, one should be guided by assessment of a possible transformation of relations in politics. The context of political technologies makes their consumers expect new political elites in connection with the presidential elections (2010): a victory of a “new face” means desired transformations.

To clarify credibility of the afore-mentioned, the UCIPR surveyed experts on politics (see Appendix “Modeling the Future. From “New Faces in Politics” to “A New Face of Politics”). According to the poll data, only 5% of experts pointed out a possibility of a drastic rapid change of political elites and the dominance of their new types in Ukraine as a result of the presidential elections. The majority (56%) of respondents are convinced new political elites in Ukraine will result from the evolutionary renewal. In the time dimension, the restricting of dominant types of power elites will be gradual (from the dominance of representatives and exponents of interests of the large capital and neo-patrimonial groups to representatives of groups that are not directly linked to such representation and are interested in reforms).

The formation of new political groups may be caused by an understanding, by social groups, of their values, economic and political strategies, positions and their expression through mechanisms of extra-/inter-election involvement. New elites will come to the political forefront when new social groups become not “consumers” but “customers” of politics, and only in the case of its orientation towards systematic reforms.

Irrespective of who will win the presidential elections, they will facilitate the formation of areas of political competence of each of the existing group of influence. The matter actually concerns the expression and strengthening of a clearer and more unbiased political identity of elite groups disguised under electoral tactics.

A result of the presidential elections will finalize the continued process of regrouping of existent groups of interests. Their configuration will depend on political aims of the winner: either to “subordinate” dominant elite groups or to service their interests. Political activity of Ukrainian parliament in terms of its legislative content will be a consequence of a new configuration.

In the broad sense, experts link the formation of new groups of interest in politics to new standards of political activity and the need for systematic reforms. 92% of respondents believe there is an opportunity to carry out reforms in the interests of the general public.

Degree of Political Risks

Assessment of decision-making procedures and analysis of positions of active economic agents in the system of political representation (the political decision-making process) allows assessing the degree of political risks in Ukraine at the level of 6-7 points.

7 – Unpredictability is high.

Regional instability, inclusion of the country into the zone of conflict of interests, polarized politics, high level of the “human factor” in decision-making, instable political ties, voluntarism in decision-making, closed decision-making in the interests of decision-making parties, disregard of procedures and the need for their recognition, unpredictable decisions, interference of the government with corporations and high level of corruption.

6 – Unpredictability is higher than average.

Polarized politics, high level of the “human factor” in decision-making, voluntarism in decision-making, closed decision-making in the interests of decision-making parties, disregard of procedures and the need for their recognition, unpredictable decisions, interference of the government with corporations and high level of corruption.

Political Stability Forecast for the Short- (May-August 2009) and Medium-Term (September-December 2009) Periods

Until the beginning of the fall political season the following major tendencies will retain their influence in politics:

- Shift of decision-making centers to extra-parliamentary structures will destabilize activity of parliament as the legislature
- Start of the official presidential campaign will be a factor of growing competition between groups, decrease of activities on decision making and development and will provoke both uncertain decisions and the very fact of their approval
- Vague constitutional process will entail an uncertain essence and directions of reforms on optimizing activities of political institutions and national authorities – administrative, local self-government, judicial and other bodies
- Dominance of standards of shadow policy and shadow decision-making
- Lack of consideration of interests of different groups concerned by decision-making authorities
- Disinterest of the majority of political elites in reforms. Some reforms, including the administrative (administrative and territorial), local self-government, system of government, constitutional and social policy ones, were not carried out because of the absence of unanimity of elite groups on their content; some others, including the judicial and legal, electoral, public finance administration, deshadowing of the economy, anti-corruption policy and agrarian reform together with the legally protected land market were not implemented because of unwillingness of elite groups since reform results will be contrary to the current status of these groups
- Absence of transparency in privatization of the state-owned property. In the medium-term period, the sale of a certain strategic unit will be motivated mostly by the need to increase the budget. There will be permanent deficit of receipts from privatization of the state-owned property with regard to the very unfavorable investment situation in the world. Hence, temptations to revise the status of privatized objects could be expected
- Frozen land issue. The moratorium's removal alone will solve nothing. The land market creates conditions that stimulate the effective use of land and make some entities deny a part of land, if it does not function properly. Yet, the very land market is not a guarantor of economic stability. The government is obliged to create conditions for the protection of land property rights, compliance of entities with their contractual obligations, purpose and reasonable use of the country's land supply. And government policy must combine interests of all economic entities of the agricultural sector. Now, it is possible to expect the adoption of laws, which will deprive investors of lands or put them in such conditions that they will be made deny land plots, cannot be ruled out. Given parliamentary inaction, investors are forced to resolve their problems with local authorities by means of corruption and through "grey" schemes. The peasants are

actually losing lands. The situation is advantageous only for a relatively small group of land owners capable of lobbying their interests at the highest level

- Readiness of authorities to unofficially seek a compromise with representatives of the influential business. It is possible to assume that attention of key political forces and presidential candidates will be further focused on problems of the large capital. This will mean the support to large businesses, lobbying of various privileges and special terms for their development at the expense of stronger pressure on the medium and small business

- Complexity of Ukraine's tax system is still a high barrier on the path to the business development in the country. It is necessary to raise the issue of the tax reform. Taking into account different approaches of political forces to ways for changing the tax law, the tax reform will be carried out gradually and inconsistently

The state of decision-making within the system of power can be characterized as "stability in underdevelopment". Meanwhile, there is a possibility of the artificial escalation of inter-ethnic tensions, which will mean the spread of political instability on social relations.

These tendencies are expected to retain their impact in the medium-term period – until the presidential campaign is over.

In the future, the number of political risks might reduce due to the emergence of agents of interests of social groups interested in reforms, which will help divide an administrative element of government from political one and balance the decision-making system in the interests of a wider circle of social groups. Aggregation of the above interests must precede their understanding and expression, development of effective social networks, lobbying of interests and strengthening of positions within the system of decision-making.

INFORMATION ABOUT THE UCIPR PROJECT ON POLITICAL RISK ASSESSMENT IN UKRAINE

In 2008, having many-year experience of analysis of political processes and activity of political system institutions, the Ukrainian Center for Political Research launched a new project linked to the identification of factors of political risks in Ukraine.

In the context of goals of this project, a *political risk* means tendencies that provoke uncertainty in the process of political and governmental decision-making and impede planning of actions on the country's markets. Political risks grow from political relations, i.e. relation concerning power and property, lie in the area of political decision-making and influence positions of agents in other areas. The term "political risk" does not coincide, by its volume, with the term "political stability" and concerns action/inaction of the government that rapidly changes conditions of work of economic agents on markets and adversely affects positions of different social groups. Political instability is viewed as an element of the structure of political risks.

The project *objective*: to forecast, on a basis of political risk assessment in Ukraine, a probability of the retention of their impact in the short- and medium-term period.

The *subject*: to evaluate the placing and correlation of groups of political influence both inside and outside the country and to analyze positions of groups of influence.

The methodology: expert polling (questionnaire poll) concerning assessment of impact of the determined factors, monitoring of decisions and draft decisions of national authorities in Ukraine and abroad (that relate to Ukraine), monitoring of decision-making procedures and assessment of positions of groups of influence.

Assessments are regularly revised.

The project is implemented by the UCIPR Politics Division.

Division Head – Svitlana Kononchuk; Project Expert – Ihor Nemchynov, Candidate of Philosophy.

Expert survey – Svitlana Gorobchyshyna.